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CENTRAL INTELLIGENCE AGENCY

6 October 1954

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SUBJECT : NIE 34-54: The Outlook for Iran

1. The attached terms of reference, indicating the allocations of production responsibility, were agreed on at the meeting of the IAC representatives on 5 October.
2. All agencies are invited to contribute to the entire paper in addition to their sections of primary responsibility.
3. It is requested that contributions be received in this Office by the close of business on 22 November.

Paul A. Borel

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Deputy Assistant Director
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6 October 1954

SUBJECT: TERMS OF REFERENCE: NIE 34-54: THE OUTLOOK FOR IRAN

THE PROBLEM

To estimate probable trends in Iran in the light of the oil settlement, with particular respect to: (a) the prospects for continued control by Zahedi or other moderate leaders; (b) the outlook for economic and political stability; (c) the probable extent of Iran's will and ability to contribute to US-backed regional security programs; and (d) the extent which continuing US assistance and influence will be important factors in the situation.

SCOPE

This estimate will devote particular attention to the short-range period extending through 1955. It is nevertheless,

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essentially an open-ended estimate, designed to assess what may be expected of Iran now that a solution of the oil dispute has been reached and now that there is at least a possible basis for continued control by moderate elements.

I. PRESENT SITUATION

OIR

A. Political

1. What is the present distribution of political power and influence in Iran? To what extent have the political changes of the Mossadeq era been reversed? How important is the present role of the Shah, the Army, the old ruling group, the tribes, public opinion, the US, the UK?
2. What is the position of the Zahedi government? What are its strengths and weaknesses? How effective has it been in achieving its major political objectives? What is Zahedi's relationship with the Shah? What is the prevalent attitude of the Majlis and Senate, the

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political community at large, and the general public toward Zahedi and his associates?

3. What is the present status of the ultranationalist elements formerly associated with Mossadeq and of the Tudeh Party? What has the recent uncovering of the Tudeh network in the armed forces revealed about the scope and effectiveness of Tudeh operations? What is the probable effect of the government crackdown? What other opposition or potential opposition elements have emerged and how important are they? How much cohesion is there among opposition and potential opposition elements?

OIR

B. Economic

1. What are the principal underlying social and economic problems confronting Iran?
2. How has the economic and financial situation changed since Mossadeq's downfall? How much US economic assistance has the Zahedi government received to date

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and how effective has it been, with this assistance, in: (a) paying current government operating expenses; (b) strengthening the government's over-all financial position; (c) ameliorating foreign exchange difficulties; and (d) initiating economic development operations? How effectively is the government dealing with matters of economic and financial management? To what extent have the country's expected oil revenues already been obligated through deals with foreign suppliers? What is the country's current state of economic health and how serious is the problem of inflation?

3. What is the status of Iranian planning and organization for economic development? What are the government's major objectives with respect to economic development and social reform and how realistic are they?

OIR

C. The Oil Settlement

1. What are the main provisions of the oil settlement and what are its principal economic and political implications for Iran? What can Iran reasonably expect, in

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terms of oil output and revenue over the next three years? over the longer run? To what extent does Iran have firm commitments from the consortium and to what extent will the economic benefits from oil depend on factors outside its control, such as speed of reactivation of the industry and world market conditions? What can Iran count on in terms of foreign exchange convertibility? What are the political advantages and disadvantages of the oil settlement and how have they figured in political developments to date?

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D. Military

1. What is the strategic position of Iran with respect to the interests of the United States in the Middle East? What is its relation to the successful defense of Turkey, Pakistan, Iraq, and the oil-producing centers of the Arabian peninsula?
2. What is the size, composition, and combat effectiveness of the Iranian armed forces, including the

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gendarmerie? What are their present capabilities for:
(a) maintaining internal security, and (b) providing
significant resistance to Soviet aggression? How loyal
are the armed forces to the Shah? To the Zahedi
government?

3. What are the present missions and scales of current
US assistance programs for the Iranian armed forces
including the gendarmerie? How much has been ac-
complished to date? To what extent have delays or
shortcomings in successful execution of these pro-
grams reflected limited Iranian ability to absorb
equipment and other indigenous factors? What other
factors, if any, have delayed or worked against suc-
cessful execution of these programs?

OIR

E. Foreign Affairs

1. What is the foreign affairs outlook of Iran's present
leadership, including the Shah? To what extent does
it tend to accept the US and UK as occupying special

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places in Iranian affairs? To regard Iran's future in world affairs as being linked with the West? To favor Iranian participation in Western-backed regional security arrangements such as the Turko-Pakistani defense grouping? To what extent is it still basically motivated by neutralist, playing-off-the-great-powers-against-each-other concepts? What significant developments in Iran's relations with the Western Powers, the USSR, and other countries have taken place under Zahedi? Is there evidence that the Iranian Government is attempting to ferment or exploit US-UK foreign policy difference? To what extent have the foreign policy attitudes and actions of the present government been accepted by the rest of the political community and by public opinion?

II. PROBABLE DEVELOPMENTS

OIR

A. Political and Economic

1. What is the over-all outlook for continuing moderate government under the Shah now that an oil settlement

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has been reached? What are the principal factors affecting this outlook? Are there likely to be early developments threatening internal stability in Iran or are significant stresses and strains more likely to develop over the longer run?

2. How durable is the oil settlement likely to be? Are politically significant problems likely to arise over implementation of the oil agreement? What economic and political effects will the reemergence of Iran as a major oil producing area have on the other oil-producing nations of the Middle East. To what extent will successful implementation and later continuation of the oil agreement depend on the attitudes and policies of the oil companies, the UK, and the Iranian Government? What are these attitudes and policies likely to be? To what extent is the durability of the oil settlement likely to depend on Iranian political developments not directly related to the oil question.

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3. What is the probable pattern of political developments in Iran through 1955? What are Zahedi's prospects for survival and to what extent do they depend on: (a) the attitude of the Shah; (b) popular and political pressures; (c) the attitude of the US; (d) that of the UK; and (e) the actions of Zahedi and his associates? Who are the most likely candidates for the succession and what are their strengths and weaknesses?
4. How effective is Zahedi or any probable successor likely to be in securing adequate support from the legislative branch and in keeping extremist elements under control? What would be the effect of Zahedi's replacement on political stability?
5. How serious and urgent are the underlying social and economic problems confronting Iran and how successful is Zahedi or any probable successor likely to be in coping with them?
 - a. To what extent will the oil settlement provide an adequate financial basis for an effective

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economic development program in Iran? About how much outside help is still likely to be required and over what time span? To what extent is this help likely to be obtainable through IBRD loans, supplier credits, or other forms of non-US government financing?

- b. To what extent is the execution of an effective economic development and social reform program likely to be hampered by such factors as poor administrative and financial management, graft, and political resistance to change? To what extent is US advice and managerial assistance likely to be utilized? What collateral economic problems might arise?

- 6. In summary, what are the long-range prospects for political and economic stability in Iran? What is the magnitude of the challenge likely to be presented by the Tudeh Party? by other extremeist elements? How effective is the present type of leadership likely

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to be in meeting this challenge? How would the course of developments be affected by the death of the Shah or some other key individual?

De-
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B. Military and Foreign

1. What is the potential value of Iranian military forces in defense of the Middle East? To what extent are the US, the UK, and Iran in agreement on this subject? How much outside assistance (including collateral economic aid) would Iran need in an effort to realize that potential and to what extent would economic aid requirements connected with a military program tie in with over-all economic development objectives? Given the present weaknesses and deficiencies of the Iranian military establishment, what are the chances that an effective military capability could in fact be created and what is the probable duration of the effort required?

OIR

2. What are the probable trends in Iranian relations with the US, the UK, and other Western powers? How

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responsive is Iran likely to be to US advice and influence regarding: (a) internal matters, and (b) foreign and military affairs? To what extent may Iran be expected to attempt to develop diplomatic and commercial relations with the UK or other Western powers as a counterpoise to US influence? How are the aims and policies regarding Iran of the UK, West Germany, France, and other Western powers likely to develop? What developments are likely in US-UK relations with regard to policies in Iran?

OIR 3. What are probable trends in Iranian relations with the USSR? What policies is the USSR likely to pursue in the light of probable developments in Iran and elsewhere in the Middle East? What is the Iranian position vis-a-vis the USSR likely to be?

OIR 4. What is the prospect for Iranian participation in the Turko-Pakistani defense grouping or other Western-backed regional security arrangements? What is the

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Iranian attitude likely to be with respect to: (a) formal adherence to such a grouping, and (b) informal contacts with neighboring states at the military staff level? What is the probable British attitude on these matters and how is it likely to affect the Iranian course of action? What is Iran's attitude likely to be toward the various potential participants in such a grouping and how is it likely to react to continuing Arab efforts to utilize the Arab Collective Security Pact as a basis for regional defense activity? How are Iran's relations with India, Afghanistan, and Israel likely to develop? with the Arab-Asian bloc and the Moslem world in general?

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